ANNUAL 1993 REPORT

SIPC

SIPC

SECURITIES INVESTOR PROTECTION CORPORATION
805 FIFTEENTH STREET, N.W. SUITE 800
WASHINGTON, D.C. 20005-2207
(202) 371-8300

April 30, 1994

The Honorable Arthur Levitt
Chairman
Securities and Exchange Commission
450 5th St., N.W.
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Twenty-third Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 11(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

James G. Stearns
Chairman

Contents

"SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers* . . ."

—Securities Investor Protection Act of 1970 Sec. 3(a)(1)(A) & (2)(A)

*Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.

Message From The Chairman

Once again we are pleased to present a report which shows a year of health and progress for SIPC. Throughout these pages you will find indications of the strength of our program. It is noteworthy that in 1993 we had the smallest number of new liquidation proceedings in any of our 23 years. As reported herein, SIPC commenced proceedings to protect the customers of only three SIPC members in 1993—two were liquidation proceedings commenced in federal district courts and one was a direct payment proceeding. Not only are three new proceedings the smallest number we have ever had, but these three, taken together, present only modest exposure to the SIPC Fund.

The other news of strength in the SIPC program is that at year-end the balance in the SIPC Fund was almost $800 million, the highest it has ever been. In 1991 we undertook a restructuring of our assessment mechanism to produce a 10% growth in the Fund each year. I am pleased to report that that goal is being met, and we have justifiable optimism in our expectations that we will attain the goal of a Fund balance of $1 billion in early 1997 as projected.

We are understandably pleased and proud about the achievements of the SIPC program, but it is important that we make it clear that those successes could not have occurred without the work being done by other organizations. One of the unique aspects of our program is the fact that SIPC does not inspect and examine its members. Rather, our program has been coordinated with the existing regulatory and self-regulatory structure of the securities industry. As a result, the examination of the financial condition of SIPC members is the immediate responsibility of the Securities and Exchange Commission and the self-regulatory organizations, namely, the Exchanges and the National Association of Securities Dealers. Accordingly, the achievements we are seeing in the reduction of the number of customer protection proceedings are the direct result of the good work being done by those organizations. It is appropriate that we recognize and acknowledge that work and those successes as we present to you this report for 1993.

James G. Stearns
Chairman

Overview of SIPC

The Securities Investor Protection Corporation (SIPC) had its origins in the difficult years of 1968–70, when the paperwork crunch, brought on by unexpectedly high trading volume, was followed by a very severe decline in stock prices. Hundreds of broker-dealers were merged, acquired or simply went out of business. Some were unable to meet their obligations to customers and went bankrupt. Public confidence in our securities markets was in jeopardy.

Congress acted swiftly, passing the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are $500,000 per customer, except that claims for cash are limited to $100,000 per customer.

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States, subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The self-regulatory organization—the exchanges and the National Association of Securities Dealers, Inc.—and the Securities and Exchange Commission (SEC) report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 32, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. As a supplement to the SIPC Fund, a revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the SEC has the authority to lend SIPC up to $1 billion, which it, in turn, would borrow from the United States Treasury.

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*Section 3(a)(2)(A) of SIPA excludes:

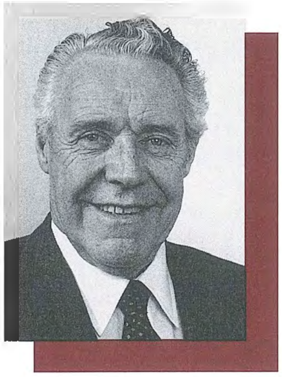
(i) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions; and

(ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts.

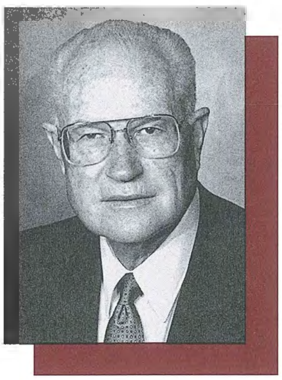
Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.

Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry Association, 120 Broadway, New York, NY 10271, and from the National Association of Securities Dealers, Inc., Book Order Department, P.O. Box 9403, Gaithersburg, MD 20898-9403.

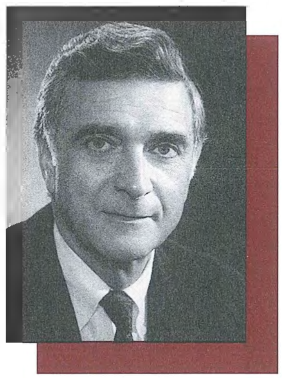
Directors



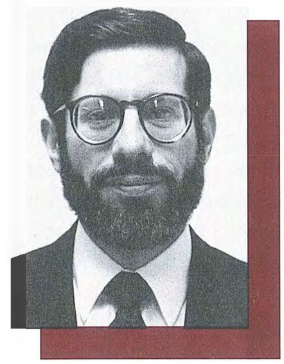
JAMES G. STEARNS
Chairman



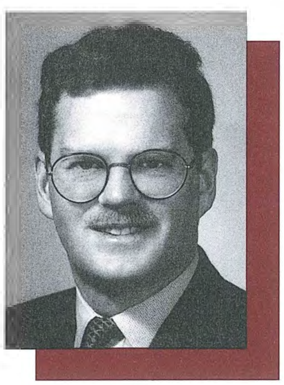
JESSE D. WINZENRIED
Vice Chairman



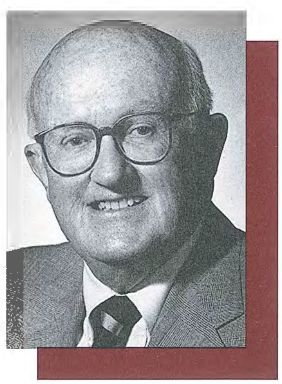
FRANK G. ZARB
Vice Chairman &
Group Chief Executive
The Travelers



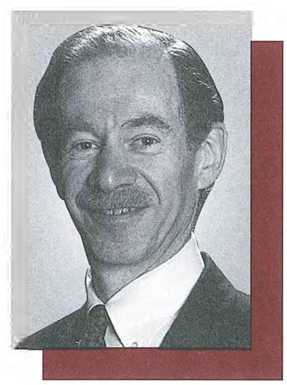
MICHAEL J. PRELL
Director, Division of Research and
Statistics
Board of Governors of the Federal
Reserve System



THOMAS J. HEALEY
Partner
Goldman Sachs & Co.



GEORGE H. PFAU, JR.
Senior Vice President
PaineWebber Incorporated



FRANK N. NEWMAN
Under Secretary
for Domestic Finance
Department of the Treasury

Officers

THEODORE H. FOCHT
President & General Counsel

MICHAEL E. DON
Deputy General Counsel & Secretary

JOSEPH F. MARINO
Vice President—Operations & Finance

Customer Protection Proceedings

"An Act to provide greater protection for customers of registered brokers and dealers and members of national securities exchanges."

—Preamble to SIPA

Customer protection proceedings were initiated for 3 SIPC members in 1993, bringing the total since SIPC's inception to 244 proceedings commenced under SIPA. The 244 members represent less than 1 percent of the approximately 30,900 broker-dealers that have been SIPC members during the last 23 years. Currently, SIPC has 7,885 members.

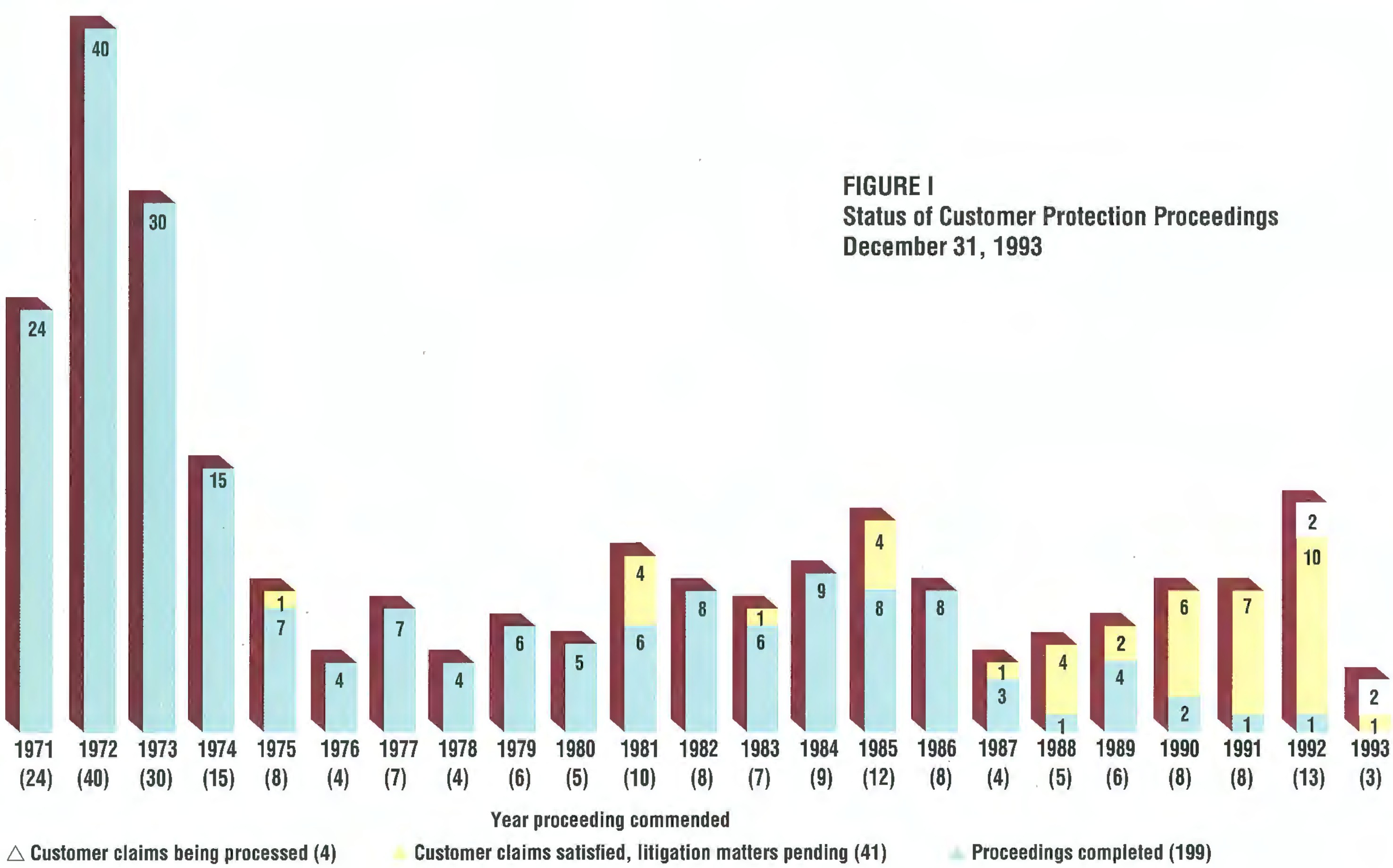
The 3 new cases compare with thirteen commenced in 1992. Over the last ten-year period, the annual average of new cases was eight.

A trustee other than SIPC was appointed in one of the cases commenced during the year. SIPC serves as trustee in one case and the other case is a direct payment proceeding. Customer protection proceedings were initiated for the following SIPC members:

Member	Date Trustee Appointed
Golden Shamrock, Inc. Monrovia, California (Direct Payment)	03/11/93*
Portfolio Asset Management USA Financial Group, Inc. El Paso, Texas (SIPC)	07/26/93
Doviak Securities, Inc. Dallas, Texas (Jack L. Kinzie, Esq.)	08/11/93

*Date notice published

FIGURE I
Status of Customer Protection Proceedings
December 31, 1993



Of the 244 proceedings begun under SIPA to date, 199 have been completed, 41 involve pending litigation matters, and claims in 4 are being processed (See Figure I and Appendix II).

During SIPC's 23-year history, cash and securities distributed for accounts of customers aggregated approximately $2 billion. Of that amount, approximately $1.8 billion came from debtors' estates and $177 million came from the SIPC Fund (See Appendix I).

Claims over the Limits

Of the more than 338,000 claims satisfied as of December 31, 1993, a total of 303 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 303 claims, a net decrease of 16 during 1993, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, $18.7 million, decreased approximately $3.7 million during 1993. These remaining claims approximate one percent of the total value of securities and cash distributed for accounts of customers.

SIPC Fund Advances

Table I shows that the 46 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 84 percent of the total advanced in all 244 customer protection proceedings. The largest net advance in a single liquidation is $30.7 million for Bell & Beckwith. This exceeds the net advances in the 185 smallest proceedings combined.

In twelve proceedings SIPC advanced $134.1 million, or 54 percent of net advances from the SIPC Fund for all proceedings.

Legal Department: seated, l to r, Kenneth Caputo, Priscilla McLain, Virginia Drew, William Seckinger; standing, l to r, Barbara Lieth♦, Ronald Heal♦, Teresa Lakawicz, Kevin Bell, Stephen Harbeck, Michael Don, Juliet Boyne♦, Josephine Wang, Angeline Melland, Theodore Focht.

♦Office of the President

TABLE I
Net Advances from the SIPC Fund
December 31, 1993
244 Customer Protection Proceedings

Net Advances From	Net Advances To	Number of Proceedings	Amounts Advanced
$10,000,001	up	5	$ 89,983,397
5,000,001	$10,000,000	7	44,141,719
1,000,001	5,000,000	34	73,232,143
500,001	1,000,000	27	18,584,076
250,001	500,000	33	11,274,958
100,001	250,000	53	8,679,911
50,001	100,000	39	2,761,488
25,001	50,000	22	815,700
10,001	25,000	10	153,161
0	10,000	10	27,089
Net recovery		4	(1,489,614)*
			$248,164,028†

*Recovery of assets and appreciation of debtors' investments after the filing date enabled the trustee to repay SIPC its advances plus interest.

†Consists of advances for accounts of customers ($177,233,665) and for administration expenses ($70,930,363).

Administration

In 1993 the Secretary of Treasury appointed Frank N. Newman, Under Secretary of the Treasury for Domestic Finance, to the Board of Directors of SIPC for the balance of the term ending December 31, 1993, and for a full three-year term commencing January 1, 1994. Prior to joining the United States Treasury Department, Mr. Newman had served as Chief Financial Officer and Vice Chairman of the Board of Directors for BankAmerica Corporation. Previously, he had been associated with Wells Fargo and Company.

Membership and the SIPC Fund

"SIPC shall . . . impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may deem necessary . . ."

—SIPA, Sec. 4(c)2

The net decrease of 25 members during the year brought the total membership to 7,885 at December 31, 1993. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

TABLE II
SIPC Membership
Year Ended December 31, 1993

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,419	264	14
SIPC(b)	734	505(c)	860(d)
Chicago Board Options Exchange Incorporated	1,149	91	53
New York Stock Exchange, Inc.	660	44	15
American Stock Exchange, Inc.	420	31	43
Pacific Stock Exchange, Inc.	235	34	15
Philadelphia Stock Exchange, Inc.	146	10	5
Chicago Stock Exchange, Incorporated	106	9	10
Boston Stock Exchange, Inc.	16	1	1
Administrative Adjustments		2	
	7,885	991	1,016

Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1993.

b. SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization. The "SIPC" designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.

c. This number reflects the temporary status of broker-dealers between the effective date of registration under section 15(b) of the 1934 Act and membership in a self-regulatory organization. Legislation passed in late 1993 should eventually eliminate this category.

d. This number reflects the temporary status of broker-dealers between the termination of membership in a self-regulatory organization and the effective date of the withdrawal or cancellation of registration under section 15(b) of the 1934 Act.

Operations & Finance Department: seated, l to r, Rita Huggins-Halstead, Karen Dwyer, Anne Ramsey, Theodore Barrow, Joseph Furr, Irene Austin; standing, l to r, Karen Winklbauer, Janet Bulluck, Linda McKenzie Siemers, Joyce Murphy, Charles Glover, Patricia Voss, William Fisher, Charles Moschera, Joseph Marino, Robert Heaney, Donald Scott.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 1993, there were 199 members who were subjects of uncured notices, 191 of which were mailed during 1993, 4 during 1992 and 2 each during 1990 and 1991. Subsequent filings and payments by 82 members left 117 notices uncured. SIPC has been advised by the SEC staff that: (a) 60 member registrations have been cancelled or are being withdrawn; (b) 14 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 2 are expected to cure their delinquencies; and (d) 41 are being contacted by SEC regional offices or the affected examining authorities.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities, amounted to $791.4 million at year end, an increase of $71.2 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1993. The 1993 member assessments were $32.6 million and interest from investments was $48.3 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1993, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1993) from the securities business.

Appendix III is an analysis of revenues and expenses for the five years ended December 31, 1993.

[1] 14(a) Failure to Pay Assessment, etc—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, unless specifically authorized by the Commission, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the full amount so specified in such notice, it may after payment of the full amount so specified commence an action against SIPC in the appropriate United States district court to recover the amount it denies owing.

TABLE III
SIPC Revenues for the Twenty-three Years Ended December 31, 1993

Member assessments and contributions: $626,870,049

Interest on U.S. Government securities: $500,095,168

History of Member Assessments*

1971: ½ of 1% plus an initial assessment of ⅛ of 1% of 1969 revenues ($150 minimum).
1972–1977: ½ of 1%.
January 1–June 30, 1978: ¼ of 1%.
July 1–December 31, 1978: None.
1979–1982: $25 annual assessment.
1983–March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986–1988: $100 annual assessment.
1989–1990: $^3/_{16}$ of 1% ($150 minimum).
1991: .065% of members' net operating revenues ($150 minimum).
1992: .057% of members' net operating revenues ($150 minimum).
1993: .054% of members' net operating revenues ($150 minimum).

*Rates based on each member's gross revenues (net operating revenues for 1991–1993) from the securities business.

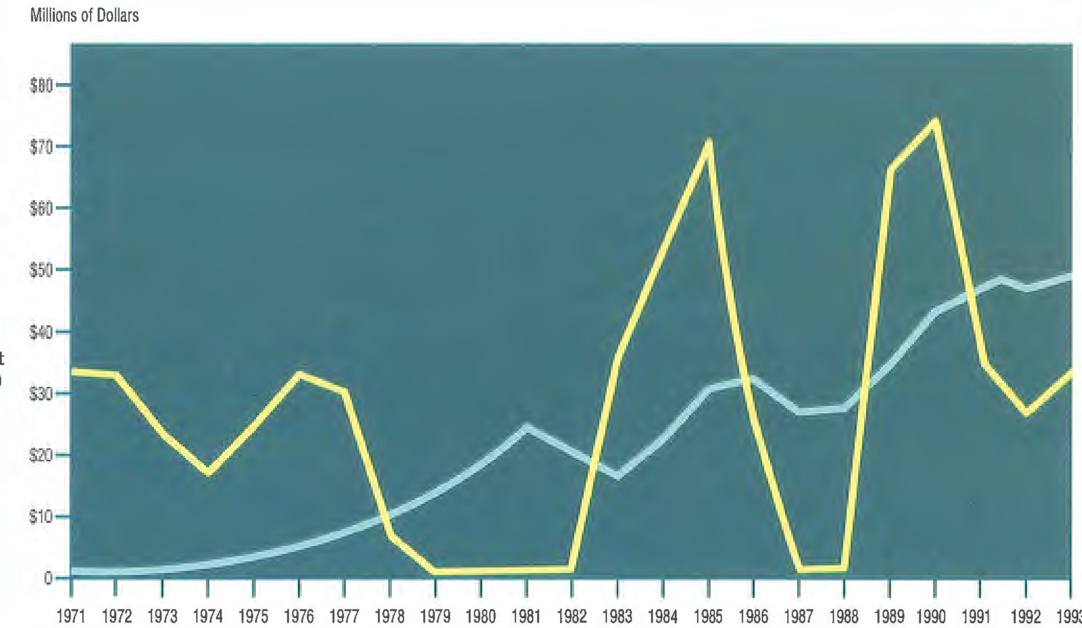
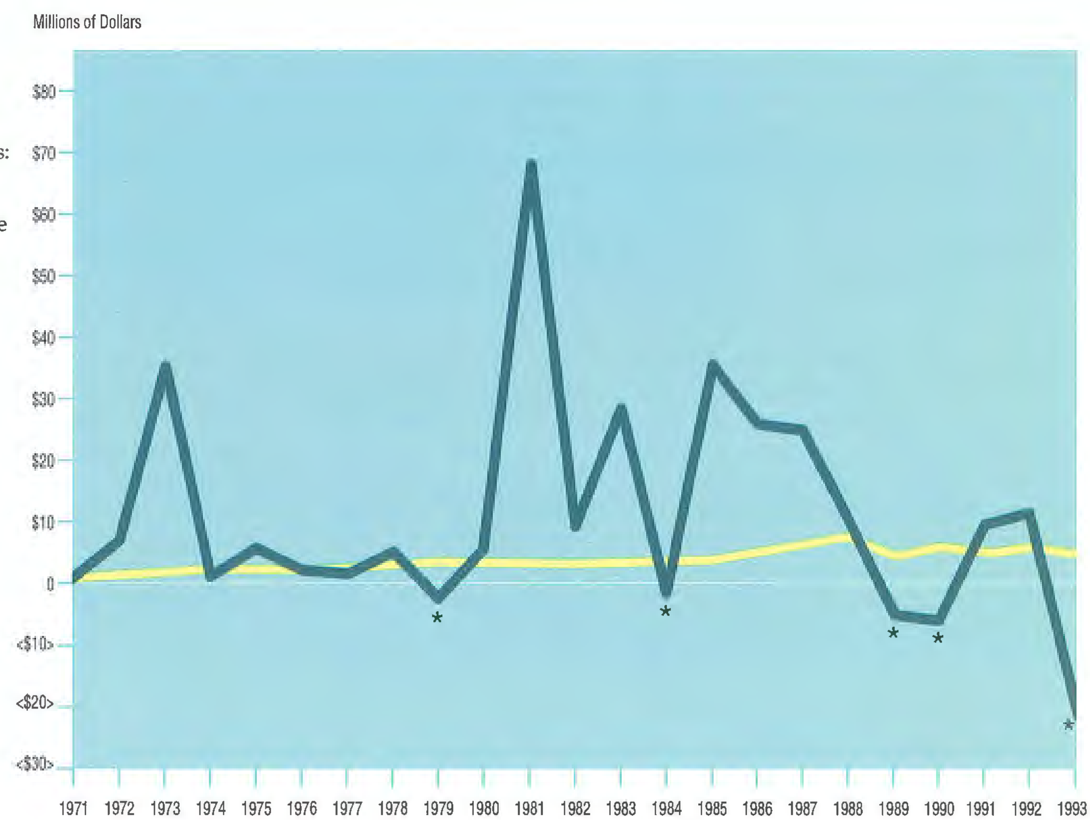


TABLE IV
SIPC Expenses for the Twenty-three Years Ended December 31, 1993

Customer protection proceedings: $247,564,028
(Includes net advances of $248,164,028 less estimated future recoveries of $11,600,000 and $11,000,000 of estimated costs to complete proceedings.)

Other expenses: $75,224,309



* Net recoveries.

During 1993, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more significant matters are summarized below.

In *In re Investment Bankers, Inc. (Turner v. Davis, Gillenwater & Lynch)*, 4 F.3d 1556 (10th Cir. 1993), *cert. denied*, 62 U.S.L.W. 3551 (U.S. 1994), the court of appeals affirmed the district court's orders and held that the bankruptcy court had jurisdiction under Article III of the United States Constitution and SIPA section 78eee(b)(4) to adjudicate the SIPA trustee's action to set aside as preferential and fraudulent transfers certain fees paid by the debtor to its attorneys. The court of appeals also held that the bankruptcy court did not abuse its discretion in ruling (a) that the payments to the debtor's attorneys were invalid as preferential and fraudulent transfers and (b) that the trustee was entitled to prejudgment interest on the payments especially where the attorney wrongfully held the disputed funds for ten years during which the estate was denied their use and benefit.

In re Bell & Beckwith (McGraw v. Society Bank & Trust), 5 F.3d 150 (6th Cir. 1993), *cert. denied*, 62 U.S.L.W. 3551 (U.S. 1994), the court of appeals affirmed the district court's order that allowed the SIPA trustee the opportunity to prove that the debtor broker-dealers's contributions to its profit-sharing retirement plan were void *ab initio* and that the contributions were properly part of the bankruptcy estate.

In *In re Waddell Jenmar Sec., Inc. (SIPC v. National Union Fire Ins. Co.)*, 1993 U.S. App. LEXIS 9535 (4th Cir. 1993), the court of appeals, in an unpublished *per curiam* opinion, affirmed the order of the district court, which had affirmed the bankruptcy court's order, and held that (i) SIPA liquidations proceed under Chapters 3 and 5 of the Bankruptcy Code; (ii) the automatic termination provision of the broker's fidelity bond is void under section 541(a)(1) of the Bankruptcy Code; (iii) the broker-dealer's principal's guilty plea to twenty fraud counts, his statements of his guilt at a plea hearing, and his statements in other adversary hearings in the case clearly establish his manifest intent to defraud the customers as defined under the bond's standards; and (iv) the bankruptcy court did not abuse its discretion in denying the insurance company's motion for leave to amend made after discovery was complete and one week prior to the hearing on the trustee's summary judgment motion, and the district court did not abuse its discretion in affirming that denial.

In *In re Collins Sec. Corp.*, 998 F.2d 551 (8th Cir. 1993), the court of appeals affirmed an order of the district court which adopted the report and recommendation of the bankruptcy court and held that the SIPA trustee did not have an insured claim against the FDIC because the debtor broker-dealer was not listed as a depositor on the books and records of the failed bank when it was placed in receivership, even though the bank had improperly closed the debtor's deposit account.

In *Federal Ins. Co. v. Sheldon*, 150 B.R. 314 (S.D.N.Y. 1993), the district court ruled that the automatic stay provisions of section 362(a) of the Bankruptcy Code, which bar the termination of the debtor broker-dealer's directors and officers policy, were, by reason of the relation-back "filing date" provision in SIPA, applicable from the date the SEC commenced its action in which a receiver was appointed rather than from the date of SIPC's application for a protective order.

In a related case, *Horowitz v. Sheldon*, 93 Civ. 4209 (RO) (S.D.N.Y., September 28, 1993), in an action by a SIPA trustee to enforce a judgment of nearly $10 million, plus interests and costs, against the debtor's principal, the district court dismissed the appeal of the principal from the bankruptcy court's order holding him in contempt for failure to appear for a deposition concerning the amount and location of his assets. The district court held that the doctrine of disentitlement applied to the principal who is a fugitive in two states.

In *Appleton v. First Nat'l Bank*, 1993 U.S. Dist. LEXIS 15472 (N.D. Ohio, October 14, 1993), in an action by a SIPA trustee against two banks for conversion and negligence in their handling of checks made payable to the debtor or potential customers of the debtor, the district court granted summary judgment to defendant banks on the grounds (i) that the debtor was not injured because the debtor's principal controlled both the debtor and a related entity, which should be treated as a single entity under the alter ego doctrine, and used them interchangeably in the fraud; and (ii) the trustee is not subrogated to the claims of customers he has paid where the claims are against the banks for conversion or negligence. An appeal to the United States Court of Appeals for the Sixth Circuit is pending (No. 93-4246).

In a related case, *In re First Ohio Sec. Co. (Plumbers & Steamfitter Local No. 490 Severance and Retirement Fund V. Appleton)*, No. 92 CV0349 (N.D. Ohio, Feb. 18, 1993), the district court affirmed the order of the bankruptcy court and held that (i) a claimant has a claim for cash and not for securities where the claimed securities never existed; and (ii) the actual customers of the broker-dealer were the severance and retirement funds and not the individual participants in the funds, and thus the bankruptcy court was correct in denying the claims of the individual participants in the funds. An appeal to the United States Court of Appeals for the Sixth Circuit is pending (No. 93-3313).

In *In re Lloyd Sec., Inc. (Shields v. National Union Fire Ins. Co.)*, 153 B.R. 677 (E.D. Pa. 1993), the district court approved and adopted the report and recommendation of the bankruptcy court to grant the SIPA trustee's motion for partial summary judgment against the issuer of the debtor's securities dealer blanket bond, and held that the adverse domination theory is applicable to toll the date of the discovery under the bond where the debtor was dominated by two wrongdoers.

In *In re Blinder, Robinson & Co., Inc.*, Adv. Pro. No. 90-1170-SBB (SIPA) (Bankr. D. Colo., January 14, 1993), the bankruptcy court ruled that certain late-filed claims should be treated in the same manner as timely-filed customer claims, based on the "exceptional circumstances" of the late filings. An appeal to the United States District Court for the District of Colorado is pending (No. 93-K-213).

In *In re C.J. Wright & Co., Inc.*, 162 B.R. 597 (Bankr. M.D. Fla. 1993), the bankruptcy court found that the claimants (i) deposited money for the purpose of purchasing certificates of deposit issued by banks; (ii) had no intent of loaning money to the debtor; (iii) were victims of unauthorized transactions by the debtor; and (iv) were "customers" with claims for cash deposited with the debtor for the purchase of securities.

In *In re First Sec. Group of California, Inc.*, SIPA No. LA 92-01156 KM (Bankr. C.D.Cal., June 3, 1993), the bankruptcy

"Congress enacted SIPA to . . . restore confidence in the capital markets, and upgrade the financial responsibility requirements for registered brokers and dealers. The Act apportions responsibility for these tasks among the SEC, the securities industry self-regulatory organizations and the SIPC . . ."

—Supreme Court Justice T. Marshall
*May 19, 1975**

court held that (i) claimants were not customers because they had not entrusted cash or securities to the debtor; (ii) the alter ego doctrine may not be used to extend customer protection under SIPA to customers of a non-SIPC member; and (iii) the non-SIPC member was not the agent of the SIPC member. An appeal to the United States District Court for the Central District of California is pending (Nos. CV 93-4905, 4907, 4908).

In *In re Light (Lacey v. Light)*, Case No. 88-04583, Adv. No. 88-0874 (Bankr. D.N.J., July 2, 1993), an action by a SIPA trustee in the personal bankruptcy of one of the principals of the SIPA Debtor Cusack, Light & Co., Inc., the bankruptcy court held that (i) the principal as a "controlling person" is liable for his and any employee's violations of the 1934 Act; (ii) the principal's debt of $300,000 is nondischargeable under section 523(a)(2)(A) of the Bankruptcy Code because the customer's claimed loss was sustained by the false representations made by the principal; and (iii) any recovery shall first go to SIPC which is subrogated to a customer's claim because it advanced $300,000 to the SIPA Trustee to satisfy that claim.

In *In re Donald Sheldon & Co., Inc. (Horwitz v. Sheldon)*, 153 B.R. 661 (Bankr. S.D.N.Y. 1993), an action by a SIPA trustee for damages against the debtor's principal, the bankruptcy court granted the trustee's *in limine* motion and struck the principal's affirmative defense of mitigation (i) because the principal had failed to plead failure to mitigate damages as an affirmative defense in answering the Trustee's complaint and (ii) as a matter of law, analogizing SIPC and the SIPA Trustee's action with actions brought by the Federal Deposit Insurance Corp., the Resolution Trust Corp. and the Federal Savings & Loan Insurance Corp. against the officers and directors of failed financial institutions and the policy considerations in those actions. After the court struck the affirmative defenses, the jury found that the principal's breach of fiduciary duty had caused $9,441,620 in damages, exclusive of interest and Trustee's costs of action.

Disciplinary and Criminal Actions

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

As a result of SEC and self-regulatory action in 1993, nine persons associated with members subject to SIPC proceedings were barred from association with any broker or dealer.

Criminal and Administrative Actions

Criminal action has been initiated in 93 of the 244 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 212 indictments have been returned in federal or state courts, resulting in 175 convictions to date. As of December 31, 1993, sentencing was pending against 1 person who had been convicted.

Administrative and/or criminal action in 232 of the 244 SIPC customer protection proceedings initiated through December 31, 1993, was accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Action	59
Exclusive SEC Administrative Action	38
Exclusive Self-Regulatory Administrative Action	42
Criminal and Administrative Action	81
Criminal Action Only	12
Total	232

In the 215 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	115	103
Bar from Association	339	210
Fines	Not Applicable	$4,605,953

Suspensions by self-regulatory authorities ranged from five days to a maximum of ten years. Those imposed by the SEC ranged from five days to a maximum of one year.

Bars against associated persons included exclusion from the securities business as well as bars from association in a principal or supervisory capacity.

The $4,605,953 in fines assessed by self-regulatory authorities were levied against 98 associated persons and ranged from $250 to $450,000.

Members in or Approaching Financial Difficulty

Section 5(a)(1) of SIPA requires the SEC or the self-regulatory organizations to immediately notify SIPC upon discovery of facts which indicate that a broker or dealer subject to their regulation is in or is approaching financial difficulty. The Commission, the securities exchanges and the NASD fulfill this requirement through regulatory procedures which integrate examination and reporting programs with an early-warning procedure for notifying SIPC. The primary objective of those programs is the early identification of members which are in or are approaching financial or operational difficulty and the initiation of remedial action by the regulators necessary to protect the investing public.

Members on Active Referral

SIPC maintained active files on 6 members referred under Section 5(a) during the calendar year 1993. Four referrals were received during the year and 2 active referrals had been carried forward from prior years. Five of the 6 remained on active referral at year-end.

In addition to formal referral of members under Section 5(a), SIPC received periodic reports from the self-regulatory organizations identifying those members which, although not considered to be in or approaching financial difficulty, had failed to meet certain pre-established financial or operational criteria and were under closer-than-normal surveillance.

*SIPC v. Barbour, 421 U.S., 415 (1975)

[1]Notices of suspension include those issued in conjunction with subsequent bars from association.

Report of Ernst & Young Independent Auditors

Board of Directors
Securities Investor Protection Corporation

We have audited the accompanying statement of financial condition of Securities Investor Protection Corporation as of December 31, 1993, and the related statements of operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation at December 31, 1993, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst & Young

Washington, D.C.
March 16, 1994

Securities Investor Protection Corporation

Statement of Financial Condition December 31, 1993

ASSETS

Cash (Net of $1,419,895 escrowed funds)	$ 370,476
Estimated member assessments receivable (Note 3)	14,000,000
U.S. Government securities, at amortized cost and accrued interest receivable ($13,084,558); (approximate market $813,700,000) (Note 6)	790,996,389
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($130,192,222) (Note 4)	11,600,000
Other	196,121
	$817,162,986

LIABILITIES AND FUND BALANCE

Advances to trustees — in process (Note 4)	$ 37,485
Accounts payable and accrued expenses (Note 8)	1,448,621
Estimated costs to complete customer protection proceedings in progress (Note 4)	11,000,000
Member assessments received in advance (Note 3)	500,000
	12,986,106
Commitments (Note 5)	
Fund balance	804,176,880
	$817,162,986

Statement of Operations and Fund Balance for the year ended December 31, 1993

Revenues:	
Interest on U.S. Government securities	$ 48,336,699
Member assessments (Note 3)	32,612,767
	80,949,466
Expenses:	
Salaries and employee benefits (Note 8)	2,550,446
Legal and accounting fees (Note 4)	186,466
Credit agreement commitment fee (Note 5)	2,107,570
Rent (Note 5)	557,832
Other	668,331
	6,070,645
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(20,075,298)
	(14,004,653)
Excess revenues	94,954,119
Fund balance, beginning of year	709,222,761
Fund balance, end of year	**$804,176,880**

See notes to financial statements.

Statement of Cash Flows for the year ended December 31, 1993

Operating activities:	
Interest received from U.S. Government securities	$ 50,788,742
Member assessments received	28,112,767
Advances paid to trustees	(10,322,160)
Recoveries of advances	11,044,957
Salaries and other operating activities expenses paid	(6,009,480)
Net cash provided by operating activities	73,614,826
Investing activities:	
Proceeds from sales of U.S. Government securities	245,311,756
Purchases of U.S. Government securities	(318,737,200)
Purchases of furniture and equipment	(10,802)
Net cash used by investing activities	(73,436,246)
Increase in cash	178,580
Cash, beginning of year	191,896
Cash, end of year	$ **370,476**

See notes to financial statements.

Notes to Financial Statements

1. Organization

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970, primarily for the purpose of providing protection to customers of its members. SIPC is a nonprofit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 except for those persons excluded under SIPA.

2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $791,366,865.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed $1 billion.

3. Member assessments

Member assessment rates for fiscal years beginning 1991 and thereafter are estimated according to the September 1991 by-law mandating 10% yearly growth of the SIPC Fund to $1 billion. Effective January 1, 1993, for members' fiscal years beginning in 1993, the assessment rate is .054% of net operating revenues from the securities business or $150, whichever is greater. Assessments received in advance will be applied to future assessments and are not refundable except to terminated members.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 45 proceedings in progress at December 31, 1993. Customer claims have been satisfied in 41 of these proceedings and in 4 proceedings customer claims and distributions are being processed.

Advances to trustees represent net amounts disbursed and amounts currently payable for proceedings in progress, less an allowance for possible losses.

Estimated costs to complete proceedings are accrued based upon the costs of completed cases of comparable size and complexity and other costs that can be reasonably estimated. Recoveries are estimated based upon the expected disposition of the debtors' estates.

SIPC has advanced $141.8 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $130.2 million is not expected to be recovered.

The following table summarizes transactions during the year that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$ 4,400,000	$23,000,000
Add:		
Estimated future recoveries	7,200,000	
Less:		
Decrease in provision for estimated costs to complete proceedings		1,921,228
Advances to trustees		10,078,772
Balance, end of year	$11,600,000	$11,000,000

Customer payments and related expenses of direct payment proceedings are recorded as expenses as they are incurred.

Legal and accounting fees include fees and expenses of litigation related to proceedings.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

5. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1987, at the rate of $404,730 for the first five years and $472,185 thereafter, total $1,731,345. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease. Rent expense for 1993 totalled $557,832.

Effective April 1, 1992, SIPC entered into a credit agreement with a consortium of banks to provide SIPC with a $1 billion revolving line of credit. A fee of 1/5 th of 1% per annum on the unused portion of the commitment is payable quarterly to the banks.

6. Fair value of securities

Approximate market of U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 1993.

7. Reconciliation of excess revenues with net cash provided by operating activities:

Excess revenues	$94,954,119
Net decrease in estimated cost to complete customer protection proceedings	(12,000,000)
Net increase in estimated recoveries of advances to trustees	(7,200,000)
Increase in member assessments receivable	(4,000,000)
Increase in amortized premium on U.S. Government securities	2,966,562
Increase in accrued interest receivable on U.S. Government securities	(514,881)
Decrease in member assessments received in advance	(500,000)
Decrease in payables	(157,761)
Other reconciling items	66,787
Net cash provided by operating activities	$73,614,826

8. Retirement Plans

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. Information regarding these plans, provided in accordance with Statement No. 87 of the Financial Accounting Standards Board, follows:

Defined benefit plan (actuarially determined*):	
Service cost-benefits earned during 1993	$224,088
Interest accrued on Projected Benefit Obligation	371,682
Return on Plan assets	(446,603)
Net amortization and deferral	(35,014)
Net pension expense	114,153
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	60,664
Total pension expense for 1993	$174,817

*Assumptions used:

1. Discount rate	8%
2. Expected long-term rate of return	9%
3. Average compensation increase	5%
4. Cost of living adjustment	4%
5. Average remaining service period	11 Years

As of January 1, 1994, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:	
Vested	$4,034,955
Non-vested	358,299
	4,393,254
Effect of projected future salary increases and moving IRS limitations	1,114,454
Projected Benefit Obligation	5,507,708
Market value of Plan assets	5,394,329
Funded Status—Projected Benefit Obligation excess of the market value of Plan assets	(113,379)
Unrecognized net asset	210,083
Unrecognized prior service credit	220,810
	(544,272)
Prepaid pension expense	(206,416)
Unrecognized net loss	$ (750,688)

Assets of the defined benefit plan are invested in a global securities commingled trust.

SIPC also has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually; the life insurance plan is noncontributory.

Information regarding these plans' funded status, provided in accordance with Statement No. 106 of the Financial Accounting Standards Board, follows:

Defined benefit postretirement plan (actuarially determined):	
Accumulated postretirement benefit obligation	
Currently retired employees	$ 93,862
Fully eligible active employees	44,912
Currently eligible active employees	0
Other active employees	1,037,811
Plan assets at fair value	0
Funded Status	1,176,585
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	254,957
Accrued postretirement benefit expenses	$1,431,542

The net periodic postretirement benefit cost for 1993 included the following components:

Service cost—benefits earned during 1993	$ 77,709
Interest on accumulated postretirement benefit obligation	88,851
Return on Plan assets	0
Amortization of unrecognized net gain	(5,433)
Net periodic postretirement benefit expense for 1993	$ 161,127

For measurement purposes a discount rate of 8% and annual rates of 14%/12% (non-Medicare/Medicare) annual rate of increase in the health care trend factor was assumed for 1993, and the rate was assumed to decrease gradually to 6% for 2010 and thereafter. The health care trend factor assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care trend factor by 1% in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993, by about $324,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1993, by about $45,000.

The discount rate used in determining the accumulated postretirement benefit obligation at December 31, 1993, was 7%. The trend factors were reduced to 12.5%/10.5% (non-Medicare/Medicare) for 1994, and these rates were assumed to decrease to 5% for 2003 and thereafter.

APPENDIX I *Distributions for Accounts of Customers for the Twenty-Three Years Ended December 31, 1993*

(In Thousands of Dollars)

	From Debtor's Estates As Reported By Trustees	From SIPC			Total
		Advances	Recoveries[a]	Net	
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
	$1,778,215	**$291,503**	**$(114,270)**	**$177,233**	**$1,955,448**

Notes:
(a) Recoveries not limited to cases initiated this year.

APPENDIX II *Customer Protection Proceedings*

PART A: Customer Claims and Distributions Being Processed[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Total Customer Claims Satisfied
San Marino Securities, Inc. Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	11/14/86	1/21/92	1/30/92	1,200	258	38
Monmouth Investments, Inc. Princeton, New Jersey (Direct Payment)	11/02/79		10/09/92†	147	36	12
Doviak Securities, Inc. Dallas, Texas (Jack L. Kinzie, Esq.)	8/17/88	8/11/93	8/11/93	335	38	
Portfolio Asset Management USA Financial Group, Inc. El Paso, Texas (SIPC)	12/23/92	7/26/93	8/17/93	16,118	905	4
TOTAL 4 MEMBERS: PART A				17,800	1,237	54

†Date notice published

December 31, 1993

Distribution of Assets Held By debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 31,926		$ 31,926	$228,255	$216,255		$12,000	
			18,637	5,966		7,735	$4,936
12,311		12,311	43,527	43,027			500
254,461	$2,685	251,776	1,000	1,000			
$298,698	**$2,685**	**$296,013**	**$291,419**	**$266,248**		**$19,735**	**$5,436**

APPENDIX II *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Total Customer Claims Satisfied
Executive Securities Corp. New York, New York (Cameron F. MacRae, III, Esq.)	11/08/67	2/14/75	2/14/75	8,740	2,757	1,341
The Investment Bankers, Inc. Denver, Colorado (James H. Turner, Esq.)	10/23/80	7/10/81	7/15/81	2,500	1,939	1,189
First State Securities Corp. North Miami, Florida (Laurence A. Schroeder, Esq.)	6/19/75	7/24/81	7/24/81 7/17/85*	3,064	936	824
Joseph Sebag, Incorporated Los Angeles, California (Eugene W. Bell, Esq.)	3/07/68	7/27/81	7/27/81	8,000	4,341	3,640
John Muir & Co. New York, New York (Harvey R. Miller, Esq.)	10/28/37	8/16/81	8/16/81	54,500	10,000 (Estimated)	16,000 (Estimated)
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/05/83	2/10/83	10,500	6,888	6,523
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/01/75	4/08/85	5/08/85	23,800	4,700	3,601
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/06/85	5/17/85	1,350	63	13
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/01/75	7/30/85	8/13/85 2/17/87*	8,300	2,469	2,362
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/04/85	272	78	26

*Successor Trustee

December 31, 1993

Distribution of Assets Held By Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 4,105,036	$ 2,271,501	$ 1,833,535	$ 2,945,918	$ 850,440	$ 30,535	$ 1,449,655	$ 615,288
3,183,407	2,128,941	1,054,466	3,667,483				3,667,483
6,556,331	6,458,025	98,306	6,147,366	5,344,893	60,805	329,980	411,688
27,218,033	27,218,033		12,282,514	5,578,679		268,257	6,435,578
198,871,157	190,380,000	8,491,157	2			2	
80,755,000	80,755,000		30,722,352	6,786,229			23,936,123
453,602,659	429,983,865	23,618,794	17,872,800	5,634,472		4,252,785	7,985,543
5,345,901	751,571	4,594,330	2,760,215			2,760,215	
6,038,508	5,962,405	76,103	12,115,233	4,697,557		7,013,546	404,130
2,146,692	1,508,689	638,003	623,458	177,128		446,330	

APPENDIX II *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Total Customer Claims Satisfied
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,368	2,200
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	1/05/83	3/21/88	3/21/88	2,885	176	44
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408	372
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (P. David Newsome, Jr., Esq.)	12/18/63	6/28/88	6/28/88	52,219	20,000	30,376
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	7/08/85	9/08/88	9/08/88	16,500	392	17
Waddell-Jenmar Securities, Inc. Chapel Hill, North Carolina (SIPC)	9/19/83	1/22/88	4/10/89	245	20	6
Williams Financial Group, Inc. Spokane, Washington (Joseph A. Esposito, Esq.)	6/01/87	12/07/89	12/07/89	30	24	3
Oberweis Securities Inc. Chicago, Illinois (J. William Holland, Esq.)	12/27/78	7/10/89	6/18/90	48,000	334	97
First Ohio Securities Company Cleveland, Ohio (William Appleton, Esq.)	1/09/85	6/22/90	6/22/90 4/19/91*	900	200	117
Blinder, Robinson & Co., Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/01/90	215,000	64,770	61,334

*Successor Trustee

December 31, 1993

Distribution of Assets Held By Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 63,996,542	$ 62,205,131	$ 1,791,411	$ 8,109,953			$ 6,178,104	$ 1,931,849
72,160	70,816	1,344	625,560	$ 164,553		457,692	3,315
197,663		197,663	4,509,335	2,912,969			1,596,366
137,812,259	132,071,748	5,740,511	6,521,354	1,460,000		280,726	4,780,628
67,641	62,822	4,819	150,108	103,489		16,741	29,878
99,650	40,481	59,169	525,108	245,835		17,125	262,148
			374,882	41,327		281,055	52,500
1,173,093	232,032	941,061	1,531,288	1,178,699		70,938	281,651
322,228		322,228	3,895,927	1,010,143		2,823,482	62,302
106,287,746	88,186,351	18,101,395	6,168,244	4,868,244		350,000	950,000

APPENDIX II *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Total Customer Claims Satisfied
D F W Clearing, Inc. Fort Worth, Texas (Robert G. Richardson, Esq.)	1/15/89	9/17/90	9/17/90	77,051	5,556	5,447
Carolina First Securities Group, Inc. Winston-Salem, North Carolina (L. Bruce McDaniel, Esq.)	6/12/89	8/24/90	10/31/90	210	20	12
Lloyd Securities, Inc. Elkins Park, Pennsylvania (Robert E. Shields, Esq.)	6/02/61	6/06/90	12/22/90	500	163	79
John M. Sorenson & Co., Inc. Houston, Texas (SIPC)	6/25/84	1/22/91	1/22/91	248	36	16
Faitos & Co., Inc. Huntington, New York (Irving H. Picard, Esq.)	9/03/87	2/27/91	2/27/91	700	91	49
Gateway Securities, Inc. Greenwich, Connecticut (SIPC)	12/17/79	4/23/91	4/23/91	3,216	124	28
C. J. Wright & Company, Inc. Ocala, Florida (K. Rodney May, Esq.)	10/17/85	4/24/91	4/24/91	1,500	120	1
Pilgrim Planning Associates, Inc. Easton, Pennsylvania (SIPC)	6/21/79	5/22/91	5/23/91	2,834	104	11
Affiliated Security Brokers, Inc. Tyler, Texas (Wayne M. Secore, Esq.)	4/10/81	9/12/91	9/12/91	2,000	89	15
T. L. Reed Securities, Inc. Irving, Texas (Jack L. Kinzie, Esq.)	6/10/87	10/08/91	10/08/91	4,500	284	19
First Securities Group of California, Inc. Beverly Hills, California (Leonard L. Gumport, Esq.)	12/12/85	1/06/92	1/07/92	800	503	213

December 31, 1993

Distribution of Assets Held By Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 1,071,833	$ 229,255	$ 842,578	$ 2,582,573	$ 1,891,876	$ 20,000	$ 46,104	$ 624,593
60,138	15,000	45,138	567,544	151,107			416,437
2,775,840	2,662,772	113,068	3,029,242	1,060,226		21,756	1,947,260
14,391		14,391	357,975	70,495			287,480
22,212	15,349	6,863	1,630,229	286,936		1,226,129	117,164
387,951	286,166	101,785	110,662	35,724			74,938
481,476		481,476	1,357,291	10,000		1,347,291	
14,293		14,293	474,628	116,640			357,988
8,710		8,710	687,593	304,536		150,723	232,334
131,677		131,677	619,103	329,000			290,103
			6,809,251	909,392			5,899,859

APPENDIX II *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Total Customer Claims Satisfied
The Riverview Corporation Knoxville, Tennessee (SIPC)	8/17/89	2/03/92	2/03/92	300	20	7
Hyer, Bikson & Hinsen Leawood, Kansas (SIPC)	5/24/84	2/24/92	2/24/92	1,200	53	2
Jim Becherer & Co. Belleville, Illinois (Harry O. Moline, Jr., Esq.)	6/10/76	3/16/92	3/16/92	320	72	10
Sun Securities Incorporated Scottsdale, Arizona (SIPC)	2/05/85	3/16/92	3/16/92	885	78	18
Seoul Securities, Ltd. f/k/a Pantheon Capital Corp. Beverly Hills, California (SIPC)	10/28/82	3/06/92	3/17/92	100	10	1
W. H. Farr & Co., Inc. New York, New York (Lee S. Richards, III, Esq.)	1/04/90	6/24/92	7/08/92	640	41	4
Wall Street of America, Inc. Norfolk, Nebraska (SIPC)	3/18/83	8/12/92	8/12/92	805	69	28
Noble Financial Corp. Los Angeles, California (Direct Payment)	9/14/87		8/19/92†	220	2	1
Wellshire Securities, Inc. New York, New York (Direct Payment)	5/20/86		9/21/92†	168	40	8
Golden Shamrock, Inc. Monrovia, California (Direct Payment)	9/14/87		3/11/93†	650	12	3
TOTAL 41 MEMBERS: PART B				560,752	131,350	136,057

†Date notice published

December 31, 1993

	Distribution of Assets Held By Debtor[c]		SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 29,723		$ 29,723	$ 102,149	$ 32,004			$ 70,145
4,891		4,891	183,146	12,486		$ 159,671	10,989
			329,080	65,130			263,950
			369,798	73,488			296,310
4,237		4,237	120,182	20,182			100,000
			376,926	266,746			110,180
871		871	262,970	8,032		57,000	197,938
			62,293	3,927		54,390	3,976
			53,963	7,238		14,803	31,922
			36,573	4,073			32,500
$1,102,859,949	$1,033,495,953	$69,363,996	$141,672,271	$46,713,895	$111,340	$30,074,500	$64,772,536

APPENDIX II *Customer Protection Proceedings*

PART C: Proceedings Completed in 1993[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Total Customer Claims Satisfied
Christian-Paine & Co., Inc. Carlton Cambridge & Co., Inc. Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	12,572	12,572
G. V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/08/82	4/15/82	600	50	19
California Municipal Investors, Inc. Los Angeles, California (Theodore B. Stolman, Esq.)	1/09/76	1/31/84	1/31/84	16,000	1,752	9,422
Gattini & Co. New York, New York (William J. Rochelle, III, Esq.)	9/25/81	2/01/84	2/01/84	3,200	1,800	1,538
MV Securities, Inc., a/k/a Multi-Vest Securities, Inc. New York, New York (Lee S. Richards, III, Esq.)	4/08/76	3/14/84	3/14/84	8,246	1,338	1,338
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/02/81	7/23/85	3/26/86	23,000	1,047	40
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28	9
H. B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/08/57	10/20/87	10/20/87	18,000	5,237	5,237
Fitzgerald, Talman, Inc. Denver, Colorado (SIPC)	6/16/83	11/01/89	11/01/89	7,800	579	56
Cooper-Daher Securities, Inc. San Francisco, California (Direct Payment)	1/05/88		9/13/91†	268	45	3
Alison Baer Securities Boca Raton, Florida (Direct Payment)	4/26/82		7/08/92†	1	1	1
TOTAL 11 MEMBERS 1993				**95,565**	**24,449**	**30,235**
TOTAL 188 MEMBERS 1973–1992[d]				**617,212**	**186,728**	**172,166**
TOTAL 199 MEMBERS 1973–1993				**712,777**	**211,177**	**202,401**

†Date notice published

December 31, 1993

Distribution of Assets Held By Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 2,620,642	$ 788,269	$ 1,832,373	$ 3,476,862	$ 1,174,917		$ 2,043,949	$ 257,996
1,921,166	1,884,150	37,016	1,450,531	1,105,796		235,805	108,930
37,286,135	35,703,108	1,583,027	(1)	(1)			
2,729,159	2,417,204	311,955	1,807,901	1,091,239		556,938	159,724
22,857,100	19,883,133	2,973,967					
830,854	48,443	782,411	1,211,561	1,013,849		185,083	12,629
51,004		51,004	239,585	53,105		65,000	121,480
133,546,755	130,771,910	2,774,845	112,290	112,290			
29,635	24,578	5,057	113,495	76,924		36,571	
			16,230	1,230			15,000
			18,980	414			18,566
201,872,450	**191,520,795**	**10,351,655**	**8,447,434**	**4,629,763**		**3,123,346**	**694,325**
613,966,530	**553,195,335**	**60,771,195**	**97,752,904**	**19,320,457**	**$1,181,111**	**38,462,514**	**38,788,822**
$815,838,980	**$744,716,130**	**$71,122,850**	**$106,200,338**	**$23,950,220**	**$1,181,111**	**$41,585,860**	**$39,483,147**

APPENDIX II *Customer Protection Proceedings*

PART D: Summary

		Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Customers Receiving Distributions
Part A:	4 Members—Customer Claims and Distributions Being Processed	17,800	1,237	54
Part B:	41 Members—Customer Claims Satisfied, Litigation Matters Pending	560,752	131,350	136,057
	Sub-Total	578,552	132,587	136,111
Part C:	199 Members—Proceedings Completed	712,777	211,177	202,401
	Total	**1,291,329**	**343,764**	**338,512**

Notes:
(a) Based upon information available at year-end and subject to adjustments until the case is closed.
(b) Notices and claim forms are commonly sent to all persons who, from the debtor's records, may have been customers. This is done so that potential claimants may be advised of the proceeding.
(c) Includes assets marshalled by Trustee after filing date and does not include payments to general creditors.
(d) Revised from previous reports to reflect subsequent recoveries, disbursements, and adjustments.

December 31, 1993

Distribution of Assets Held By Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 298,698	$ 2,685	$ 296,013	$ 291,419	$ 266,248		$ 19,735	$ 5,436
1,102,859,949	1,033,495,953	69,363,996	141,672,271	46,713,895	$ 111,340	30,074,500	64,772,536
1,103,158,647	1,033,498,638	69,660,009	141,963,690	46,980,143	111,340	30,094,235	64,777,972
815,838,980	744,716,130	71,122,850	106,200,338	23,950,220	1,181,111	41,585,860	39,483,147
$1,918,997,627	**$1,778,214,768**	**$140,782,859**	**$248,164,028**	**$70,930,363**	**$1,292,451**	**$71,680,095**	**$104,261,119**

APPENDIX III *Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1993*

	1993	1992	1991	1990	1989
Revenues:					
Interest on U.S. Government securities	$48,316,768	$46,211,084	$46,962,755	$ 42,827,097	$ 34,965,465
Member assessments and contributions	32,612,767	27,217,374	38,851,496	73,029,832	66,046,991
Interest on assessments	19,931	21,626	112,083	66,936	111,675
	80,949,466	73,450,084	85,926,334	115,923,865	101,124,131
Expenses:					
Salaries and employee benefits	2,550,446	2,502,276	2,355,831	3,120,435	1,974,100
Legal fees	163,866	365,104	466,021	208,874	417,695
Accounting fees	22,600	19,828	18,150	31,400	19,000
Credit agreement commitment fee	2,107,570	2,471,200	1,050,000	1,052,135	1,227,634
Professional fees—other	126,212	144,580	101,730	233,044	43,689
Other:					
Assessment collection cost	9,976	13,401	19,373	23,439	22,992
Custody and bank fees	10,109	14,108	39,867	35,330	28,827
Depreciation and amortization	69,001	93,824	98,290	108,174	126,931
Directors fees and expenses	18,182	16,569	23,194	14,272	11,337
Insurance	15,518	16,802	21,908	18,885	19,228
Office supplies and expenses	154,517	127,055	138,464	118,980	176,666
Postage	15,969	17,639	21,539	17,982	13,058
Printing & mailing annual report	70,789	65,022	61,270	60,845	54,928
Publications and reference services	70,488	70,087	59,545	58,817	53,555
Rent—office space	557,832	527,910	499,831	459,323	436,817
Telephone	14,727	14,555	15,214	13,818	12,469
Travel and subsistence	83,766	87,127	149,072	153,089	92,503
Miscellaneous	9,077	10,789	18,987	4,510	8,359
	1,099,951	1,074,888	1,166,554	1,087,464	1,057,670
	6,070,645	6,577,876	5,158,286	5,733,352	4,739,788
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	(1,115)	16,875	(170,044)	(19,733)	(76,793)
Securities	(1,845,530)	(89,117)	2,440,407	(7,174,535)	(967,860)
Cash	(3,654,454)	6,832,922	384,308	6,325,814	(14,742,160)
	(5,501,099)	6,760,680	2,654,671	(868,454)	(15,786,813)
Administration expenses	4,104,982	5,285,357	7,577,331	6,125,694	9,355,168
	(1,396,117)	12,046,037	10,232,002	5,257,240	(6,431,645)
Net change in estimated future recoveries	(7,200,000)	(1,000,000)	2,300,000		1,500,000
	(8,596,117)	11,046,037	12,532,002	5,257,240	(4,931,645)
SIPC as Trustee:					
Securities	64,479	159,671	17,125	29,092	18,161
Cash	185,801	582,790	873,011	50,000	25,953
	250,280	742,461	890,136	79,092	44,114
Administration expenses	180,068	284,094	258,547	120,580	71,383
	430,348	1,026,555	1,148,683	199,672	115,497
Direct payments:					
Securities	16,632	60,296		174,164	
Cash	69,357	22,542	80,000	131,290	18,000
	85,989	82,838	80,000	305,454	18,000
Administration expenses	4,482	17,137	1,230	3,546	2,087
	90,471	99,975	81,230	309,000	20,087
Net change in estimated cost to complete proceedings	(12,000,000)	(1,900,000)	(3,900,000)	(13,500,000)	(1,700,000)
	(20,075,298)	10,272,567	9,861,915	(7,734,088)	(6,496,061)
	(14,004,653)	16,850,443	15,020,201	(2,000,736)	(1,756,273)
Excess revenues	**$94,954,119**	**$56,599,641**	**$70,906,133**	**$117,924,601**	**$102,880,404**